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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000312

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SUBJECT: ENERGY MINISTER POINTS TO IRAN'S ROLE IN BALANCING
REGIONAL ENERGY INTERESTS

REF: YEREVAN 281

Classified By: Amb. John M. Evans for reasons 1.4 (b, d).

SUMMARY

11. (C) During a meeting with the Ambassador on February 28, Minister of Energy Armen Movsisyan discussed Armenia's ongoing disagreement with Russia over anticipated price hikes in gas supplies, the GOAM's ambitions to diversify its sources of energy, Iran's role in the Armenian energy market, and the future of the Armenian nuclear power plant. Movsisyan blamed Russia for the January 22 Mozdok-Tbilisi pipeline explosions and described the Armenia-Iran gas pipeline, not without its own concerns, as a geopolitical necessity Armenia would aggressively pursue along with other economic opportunities. End Summary.

"WE ALL KNOW THAT IT WAS NOT JUST CHANCE"

12. (C) Noting tough and ongoing negotiations with Russia over the anticipated April 1 hike in natural gas prices (USD 56 to USD 110 per thousand cubic meters), Minister of Energy Armen Movsisyan asserted that the explosions along the Mozdok-Tbilisi pipeline were the result of intentional Russian efforts to create a situation that would further leverage Moscow's bargaining position. "Before the interruption in supplies, increasing the price of gas was totally unacceptable," Movsisyan said. The interruption, however, brought into sharp focus Armenia's dependence on Russia and the insufficiency of supplies in the region, Movsisyan told the Ambassador. "We all know that it was not just chance, and Russia will do it again whenever it needs to," he said. (Note: Movsisyan's indictment of Russia is a departure from official Armenia's silence directly following the January 22 explosions. End Note.)

MOVSIKYAN: PRICE HIKE COULD COST USD 110 MILLION ANNUALLY

13. (C) At a price of USD 110 per thousand cubic meters, Armenia's dependence on Russian natural gas will cost the country an additional USD 110 million annually, Movsisyan told the Ambassador. Armenia's metal, agricultural processing, chemical, cement, and other major industries depend on natural gas to operate, and "the price hike will be disastrous," he said. "Armenia is dependent and this

dependency is designed to make it very difficult for us to change anything," he said. The Ambassador reminded Movsisyan that Armenia's efforts to diversify energy supplies would be much less difficult if the parties could resolve Nagorno-Karabakh and re-open pipelines connecting Azerbaijan and Armenia. Movsisyan asserted the decaying pipeline infrastructure, due to neglect, would be inoperable.

"JUST ONE GOVERNING PRINCIPLE: WE WANT TO BE INDEPENDENT"

14. (C) Despite millions of dollars in the Iranian pipeline project, Movsisyan said he only expects Armenia would import 300 to 350 million cubic meters of gas annually, "well below" the approximate 1.8 billion cubic meters Armenia consumes each year. (Note: Pressure from Russia successfully limited the Iran-Armenia pipeline to about 700 millimeters in diameter (reftel). End Note.) The GOAM, Movsisyan said, was weighing its options, none of which looked affordable. Price hikes for Russian gas would cost Armenia an additional USD 110 million annually, and widening the diameter of the pipeline would cost USD 130 million. Armenia cannot afford either option, Movsisyan asserted. As a result, Armenia is aggressively pursuing its only energy principle, "to be independent, to have balance," Movsisyan said. Movsisyan told the Ambassador that the GOAM is closely watching the balance of trade with Iran through the lens of U.S. ILSA triggers, though he believed "the United States could not bill Armenia's economic relations with Iran as anything that would make Iran stronger."

MOVSIKYAN: A NEW NUCLEAR POWER PLANT WOULD HELP

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15. (C) Faced with limited options and an aging VVER-type nuclear reactor, Movsisyan told the Ambassador that trade with Iran would not be enough to significantly offset Armenia's overwhelming dependence on Russia. As a result, Armenia would welcome a new nuclear power plant, he said, "constructed by anyone" and even "funded by USAID." In the absence of a new plant, Movsisyan said he did not see how Armenia could justify decommissioning Armenia's aging reactor.

COMMENT: BALANCING INTERESTS IN THE ENERGY SPHERE

16. (C) Movsisyan's private indictment of the Russians (he has not made these claims in public), his assertions that price hikes in Russian gas will devastate the economy, that Iran may seek to exploit its supplies by raising prices (Iran is financing the Iran-Armenia pipeline), and his denial that pipeline infrastructure between Armenia and Azerbaijan could be salvaged to re-establish trade in the event of a settlement, may have been an attempt at leveraging more assistance in the energy sector. As with other foreign policy objectives, Armenia's energy policy is based on balancing relations with competing partners -- all of whom dwarf Armenia -- to gain the best possible deal for Armenia.
EVANS